

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

ANNUAL COMPLIANCE REVIEW, 2022

Docket No. ACR2022

**RESPONSES OF THE UNITED STATES POSTAL SERVICE TO
QUESTIONS 1-17 OF CHAIRMAN'S INFORMATION REQUEST NO. 2**

The United States Postal Service hereby provides its responses to the above-listed questions of Chairman's Information Request No. 2, issued on January 6, 2023. Each question is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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January 13, 2023

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 2**

1. See attachment under seal.

RESPONSE:

Please see the response filed under seal as part of USPS-FY22-NP33.

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 2**

2. See attachment under seal.

RESPONSE:

Please see the response filed under seal as part of USPS-FY22-NP33.

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 2**

- 3.** See attachment under seal.

RESPONSE:

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**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 2**

4. See attachment under seal.

RESPONSE:

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**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 2**

5. See attachment under seal.

RESPONSE:

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**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 2**

- 6.** See attachment under seal.

RESPONSE:

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**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 2**

7. In the preface of Library Reference USPS-FY22-5, the Postal Service states “expenses associated with the fulfillment of COVID-19 Test Kits were reallocated and were treated as institutional costs (i.e., not attributable to any Market dominant or competitive product or products).”¹ Please explain the rationale for treating costs associated with the delivery of COVID-19 Test Kits as institutional costs.

RESPONSE:

The critical word in the quoted language from the Preface to USPS-FY22-5 is “fulfillment.” Broadly speaking, the COVID-19 Test Kits interagency agreement includes two components, the “fulfillment” component in which the Test Kits are prepared for entry into the mailstream, and what can loosely be referred to as the “delivery” component, which relates to the activities that occur after the Test Kits enter the mailstream. In the Note included with the table in the Preface of USPS-FY22-NP27 in which the total Test Kit cost figure for FY 2022 is reported, that distinction is described as follows:

(2) COVID Test Kits includes the total revenues and costs for COVID test kit fulfillment and delivery; including the picking, packing, and delivery of the kits. Delivery revenue (i.e., postage) and attributable costs (for the processing, transportation, and delivery of the mail pieces once inducted in the mail stream), as well as being reflected in these figures, are also included in the total product reporting in the Cost and Revenue Analysis (CRA).

To the extent, therefore, that the question suggests that it is the costs for the “delivery” component that are being treated as institutional, that suggestion would be incorrect.

As indicated in the Note above, those costs are treated in the CRA as attributable to the

¹ Library Reference USPS-FY22-5, December 29, 2022.

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 2**

underlying postal products, as is the postage revenue associated with that portion of the program. The revenue from the "fulfillment" portion, on the other hand, is not included in the revenue for any postal products, and therefore appears by default as part of the Miscellaneous Items revenue row in the CRA. To match the treatment of "fulfillment" revenue, it is therefore necessary to reallocate the costs associated with the "fulfillment" portion such that they likewise appear in the All Other cost row (i.e., institutional cost row) of the CRA. As indicated, though, that all other/institutional cost treatment is limited to the costs of the "fulfillment" portion, and does not extend to the costs of the "delivery" portion.

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 2**

8. Please refer to the Postal Service's Notice and Responses to CHIR No. 1 in Docket No. R2023-1.² The Postal Service states that "to improve the operational efficiency for processing of bundles at different presort levels in sacks, the Postal Service is proposing to move the bundles volume in sacks entered at Origin, [Destination Network Distribution Center (DNDC)], and [Destination Area Distribution Center (DADC)] to presort in [Mixed Area Distribution Center (MADC)] containers entered at Origin with container fee waived."
- a. Please confirm that Outside County Periodicals revenue is a function of pound prices, piece prices, bundle prices, and container prices. If not confirmed, please explain.
 - b. Please confirm that when the sacks container fee is waived as presented in the R2023-1 Notice, total Outside County Periodicals revenue will be reduced because the diminished revenue from waiver of the sacks container fee outweighs the additional revenue derived from higher MADC bundle prices. If not confirmed, please explain.
 - c. In its Response to CHIR No. 1, question 6.d., the Postal Service states "[f]or the past decade, the Postal Service has discouraged the use of Sacks. Sacks are expensive to maintain, difficult to process, and result in higher rates of Bundle breakage. The Postal Service has raised the Sack minimums, introduced the Mixed Pallet, and increased Sack prices to encourage customers to use alternatives to Sacks." Please discuss how the reduced revenue from the sacks pricing structure change is balanced by reduced costs.
 - d. Outside County Periodicals are a non-compensatory product in a non-compensatory class. See FY 2022 ACR at 40. Please discuss the expected impact of the sacks pricing structure change on the cost coverage of Outside County Periodicals.

RESPONSE:

- a. Confirmed
- b. Confirmed

² Docket No. R2023-1, United States Postal Service Notice of Market-Dominant Price Change October 7, 2022, at 23 (R2023-1 Notice). See also Docket No. R2023-1, Responses of the United States Postal Service to Chairman's Information Request No. 1, October 20, 2022, question 8 (Response to CHIR No. 1).

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 2**

- c. The Sack prices in Periodicals recover only 40-90 percent of the added cost incurred by the Postal Service of handling sacks. In addition, elimination of all sacks that need to be handled in the network would enable the Postal Service to eliminate the fixed cost of setting up and breaking down sack sorting operations. Eliminating sacks should reduce costs more than the corresponding reduction in revenue. In FY 2022, these sacks generated \$8.7M in revenue, but the estimated added cost of these sacks was \$11.1M.

- d. It is anticipated that the elimination of network sacks will reduce mail processing costs more than the corresponding reduction in revenue and increase the cost coverage of Outside County Periodicals.

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 2**

9. Please fill in the table below with the overall number of Market Dominant, Competitive, and Total Post Office Boxes available (number of boxes) for FY 2018 through FY 2022:

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Market Dominant PO Boxes					
Competitive PO Boxes					
Total PO Boxes					

RESPONSE:

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Market Dominant PO Boxes	11,429,459	11,411,201	11,385,538	11,031,504	11,007,103
Competitive PO Boxes	11,031,538	11,023,872	11,002,879	11,338,165	11,318,440
Total PO Boxes	22,460,997	22,435,073	22,388,417	22,369,669	22,325,543

Please note that in the above table, the figures provided represent the overall total number of boxes that exist (and thus in that sense are “available”), but do not represent the number of boxes that are “available” in the sense that they are currently not rented to (or, in the case of Group E boxes, not assigned to) some existing customer. This interpretation of the question is consistent with Question 13 of this Information Request regarding the calculation of an occupancy rate.

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 2**

- 10.** Please fill in the table below with the overall number of Market Dominant, Competitive, and Total Post Office Boxes locations available (number of facilities) for FY 2018 through FY 2022:

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Market Dominant PO Box Facilities					
Competitive PO Box Facilities					
Total PO Box Facilities					

RESPONSE:

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Market Dominant PO Box Facilities	22,805	22,754	22,696	22,406	22,330
Competitive PO Box Facilities	9,025	9,021	9,016	9,254	9,201
Total PO Box Facilities	31,830	31,775	31,712	31,660	31,531

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 2**

- 11.** For FY 2022, please provide the number of Market Dominant and Competitive Post Office Boxes by their relevant geographic designations (urban, suburban, rural, etc.) by both number of boxes and number of facilities. Please confirm these totals match the Postal Service's responses in questions 9 and 10.

RESPONSE:

The Postal Service neither collects data regarding nor breaks down the number of Market Dominant and Competitive Post Office Boxes by their geographic designations (urban, suburban, rural, etc.), so there are no available numbers to provide or confirm.

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 2**

- 12.** Please fill in the table below with the number of Market Dominant, Competitive, and Total Post Office Boxes that had been purchased by customers for FY 2018 through FY 2022:

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Market Dominant PO Boxes					
Competitive PO Boxes					
Total PO Boxes					

RESPONSE:

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Market Dominant PO Boxes	5,419,380	5,337,019	5,286,540	5,086,934	4,992,147
Competitive PO Boxes	6,370,384	6,217,455	6,077,096	6,123,626	5,741,046
Total PO Boxes	11,789,764	11,554,474	11,363,636	11,210,560	10,733,193

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 2**

- 13.** Please fill in the table below using the numbers provided in the Postal Service's responses to questions 9 and 12 indicating the occupancy rate of Market Dominant, Competitive, and Total Post Office Boxes (Question 12 (purchased boxes) / Question 9 (number of boxes)):

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Market Dominant Occupancy Rate					
Competitive Occupancy Rate					
Total Occupancy Rate					

RESPONSE:

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Market Dominant Occupancy Rate	58.0%	57.3%	56.9%	56.8%	56.0%
Competitive Occupancy Rate	58.9%	57.5%	56.4%	55.2%	51.9%
Total Occupancy Rate	58.4%	57.4%	56.6%	56.0%	53.9%

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 2**

- 14.** Please refer to the Postal Service's Response to question 9 and specifically the change in the number of Competitive Post Office Boxes between FY 2021 and FY 2022.
- a. Please calculate and provide the change in the number of Competitive Post Office Boxes between FY 2021 and FY 2022.
 - b. For the change in the number of Competitive Post Office Boxes between FY 2021 and FY 2022, please indicate how many Post Office Boxes were transferred to the Competitive Post Office Box Service product from the Market Dominant Post Office Box Service product versus how many were added in areas that qualify as having competition.

RESPONSE:

- a. Between FY 2021 and FY 2022, the number of Competitive Post Office Boxes decreased by a measure of 19,725.
- b. None: there were no offices that were transferred from MD to Competitive in FY 2022.

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 2**

- 15.** Please confirm that the Postal Service reviews the proximity of Post Office Box locations to competitor locations and describe the process of review, how often it occurs, and whether the Postal Service would move a Post Office Box location from the Competitive Post Office Box Service product to the Market Dominant Post Office Box Service product if that location was found to no longer be meeting the definition of Competitive Post Office Box Service in the MCS.³ If not confirmed, please explain why not.

RESPONSE:

The United States Postal Service seeks to maintain a consistent level of service to its customers. Once the decision has been made to reclassify a location from Market Dominant to Competitive, it will be the new status quo for that office. When an office is reclassified to Competitive, PO Box customers at that location gain access to additional services within the Postal Service, such as Street-Style Addressing, Signature on File, etc. The Postal Service does not change offices from Competitive back to Market Dominant because customers would experience a loss of these additional features. Most of the competitors are considered small businesses including franchisees and they are susceptible to business closure without notice or sale of the business. This inconsistency would result in a negative experience and reflect poorly on the Postal Service.

³ See Mail Classification Schedule, section 2640.1, available at <http://www.prc.gov/mail-classification-schedule>.

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 2**

- 16.** Please refer to the Group E category of Post Office Boxes.⁴
- a. Please identify the number of Group E Post Office Boxes available for use by Postal Service customers.
 - b. Please identify the number of Group E Post Office Boxes being used by customers in FY 2022.
 - c. Please clarify whether Group E Post Office Boxes exist at both Market Dominant and Competitive locations. If Group E Post Office Boxes exist at both Market Dominant and Competitive locations, please specify how many of the boxes identified in question 16.b. are at Market Dominant locations and how many are located in Competitive locations.

RESPONSE:

a. Group E Post Office Boxes are made available based on eligibility, and are not kept available specifically for use as Group E Post Office Boxes. Therefore, the number of available Group E Post Office Boxes is equal to the number of available Post Office Boxes (Total Boxes minus boxes rented and minus current Group E boxes), which in FY 2022 was 10,290,289.

b. 1,302,061

c. Confirmed, Group E Post Office Boxes exist at both Market Dominant and Competitive locations. In FY 2022, there were 1,167,691 Market Dominant Group E Post Office Boxes and 134,370 Competitive Group E Post Office Boxes in use.

⁴ See Mail Classification Schedule, section 1550.3 and 1550.4, available at <https://www.prc.gov/mail-classification-schedule>.

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 2**

- 17.** Please discuss any plans the Postal Service has for either Market Dominant or Competitive Post Office Boxes in FY 2023. Specifically, in the response, please include any plans the Postal Service has in the following areas:
- a. Reviewing, reducing, and addressing costs.
 - b. Increasing revenues.
 - c. Reviewing and reassigning offices between the Market Dominant and Competitive Post Office Box Service products.
 - d. Offering, eliminating, or otherwise changing value added service features.
 - e. Deploying new marketing or advertising strategies.
 - f. Increasing transparency with customers.

RESPONSE:

- a. The Postal Service continually reviews costs, but currently has no specific cost reduction plans for FY 2023.
- b. The Postal Service performs comprehensive price analysis of PO Boxes and their additional features in order to offer services to customers at a reasonable and affordable price while generating a healthy revenue stream.
- c. The Postal Service has identified 291 offices that will be reclassified from Market Dominant to Competitive in accordance with an 8-mile radius increase in the Competitive classification. Order No. 6234, Docket No. MC2022-46 (July 21, 2022). Enabling additional services at these offices offer opportunities to generate more revenue.
- d. The Postal Service consistently seeks opportunities to create and improve services according to the marketplace and consumer demand. Unless

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 2**

necessary, services are not usually eliminated once introduced, as this would have a negative impact on customers.

- e. The Postal Service price change notification includes the features and benefits of the Premium Post Office boxes at the competitive locations.
- f. The Postal Service regularly communicates with current PO Box customers through email, letters, and in-person regarding the status of their PO Box service and additional features, price adjustments, and rent information.